

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /105 W

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R 070908Z JUL 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 0622

TREASURY DEPARTMENT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 10228

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JULY 1 - 7

1. SUMMARY: NEW AUTO DEMAND PICKED UP IN JUNE, WHEREAS NEW MACHINERY ORDERS FELL IN MAY. LABOR OUTLOOK GENERALLY DETERIORATED IN MAY EXCEPT FOR INCREASED OVERTIME IN MANUFACTURING. UNEMPLOYMENT ROSE, JOB OFFERS TO APPLICANTS' RATIO DECLINED, AND UNIT LABOR COSTS REGISTERED FIRST INCREASE IN FOUR MONTHS. FURTHER DECLINE IN PROPENSITY TO SAVE INDICATES CONSUMER OPTIMISM CONTINUED BEYOND FIRST QUARTER. RISING TREND IN BOND YIELDS REMAINED UNCHANGED IN JUNE, BUT PACE OF INCREASE APPEARS TO HAVE SLOWED. LAST MONTH OFFICIAL FOREX RESERVES ROSE AGAIN. END SUMMARY.

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2. NEW PASSENGER CAR REGISTRATIONS ROSE NEARLY 30

PERCENT ON A SEASONALLY ADJUSTED BASIS IN JUNE, STAGING SHARP RALLY FROM MAY SLUMP. INCREASE BROUGHT SEASONALLY ADJUSTED AUTO REGISTRATIONS TO HIGHEST LEVEL IN OVER SIX MONTHS. NEVERTHELESS, REGISTRATIONS FOR APRIL-JUNE 1976 QUARTER AS A WHOLE WERE 17 PERCENT BELOW YEAR EARLIER LEVEL. THERE ARE SOME INDICATIONS THAT BUYERS ARE SWITCHING TO SMALLER MODELS AND SALES OF MINI CARS REACHED RECORD LEVEL IN JUNE.

	SEASONALLY UNADJUSTED (1,000 CARS)	PERCENT CHANGE FROM ADJUSTED PRIOR MONTH (1,000 CARS)	
APR	191.3	212.0	MIN 2.9
MAY	151.3	174.1	MIN 17.9
JUNE	221.8	224.9	29.2

3. MAY NEW MACHINERY ORDERS FELL NEARLY 10 PERCENT ON SEASONALLY ADJUSTED BASIS. SECOND CONSECUTIVE MONTHLY DECLINE IN ORDERS PLACED BY PRIVATE INDUSTRY FOR MACHINERY, EXCLUDING SHIPS (JEI 337), DROPPED APR-MAY AVERAGE 13.4 PERCENT BELOW MONTHLY AVERAGE FOR JAN-MARCH 1976 SPAN.

NEW MACHINERY ORDERS, EXCLUDING SHIPS, S.A.

	PERCENT CHANGE FROM BIL YEN	PRIOR MONTH
MAR	323.3	19.6
APR	247.4	MIN 23.5
MAY	223.6	MIN 9.6

4. INDEX OF OVERTIME WORKED IN MANUFACTURING (JEI 401) ROSE 4.1 PERCENT, SEASONALLY ADJUSTED, IN MAY; LARGER INCREASE THAN THE PREVIOUS MONTH. INDEX HAS RISEN BY 28.6 PERCENT SINCE RECENT SPURT IN INDUSTRIAL PRODUCTION AND SHIPMENTS WHICH BEGAN NOV 1975. OVERTIME INDEX IS STILL 27 PERCENT BELOW PREVIOUS PEAK ATTAINED JUNE 1973. HOWEVER, GIVEN RELATIVELY LOW LEVELS OF CAPITAL UTILIZATION IN SOME MANUFACTURING SECTORS, IT APPEARS THAT OVERTIME HOURS WORKED IN CERTAIN INDUSTRIES SUCH AS ELECTRICAL EQUIPMENT AND AUTOMOBILE PRODUCTION, ARE NOW NEAR LEVELS RECORDED IN 1973 BOOM.

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	PERCENT CHANGE FROM INDEX, 1970-100, S.A.	PRIOR MONTH
MAR	62.0	3.9
APR	63.8	2.9
MAY	66.4	4.1

5. LABOR MARKET CONDITIONS DETRIORATED AGAIN IN MAY. NUMBER OF UNEMPLOYED PERSONS (JEI 378) INCREASED

FOR SECOND CONSECUTIVE MONTH TO REACH HIGHEST LEVEL SINCE LAST NOV, AND THE UNEMPLOYMENT RATE (JEI 379) INCREASED AS WELL, ON SEASONALLY ADJUSTED BASIS. RATIO OF JOB OFFERS TO JOB APPLICANTS (JEI 385) ALSO DECLINED FOR FIRST TIME IN SIX MONTHS.

(NOTE: PRIME MINISTERS'S OFFICE USES DIFFERENT SEASONAL ADJUSTMENT FACTORS THAN EPA. APRIL UNEMPLOYMENT RATE, AS REPORTED BY PRIME MINISTER'S OFFICE, WAS 2.0 PERCENT AND IS OFTEN CITED IN PRESS REPORTS.)

JOB OFFERS TO APPLI- UNEMPLOYED, S.A.

CANTS' RATIO, S. A. (1,000) (RATE)

MAR	0.68	990	1.9
APR	0.68	1080	2.0
MAY	0.64	1110	2.1

6. UNIT LABOR COSTS ROSE SLIGHTLY IN MAY TO RECORD FIRST INCREASE IN FOUR MONTHS. MAY INCREASE APPEARS TO REFLECT SMALL DECLINE IN INDUSTRIAL PRODUCTION IN THAT MONTH (SEE TOKYO 9669), AS WELLHAS INITIAL IMPACT OF REGULARLY NEGOTIATED SPRING WAGE HIKES. DESPITE MAY INCREASE IN SEASONALLY ADJUSTED INDX (JEI 325) UNIT LABOR COSTS REMAIN ABOUT 3 PERCENT BELOW YEAR EARLIER LEVELS.

UNIT LABOR COSTS, S.A.

INDEX, 1970-100 PERCENT CHANGE FROM PRIORHMONTH

MAR	192.8	MIN 2.3
APR	182.5	MIN 5.3
MAY	183.5	0.5

7. AVERAGE PROPENSITY TO SAVE FELL IN APRIL TO REGISTER FOURTH STRAIGHT MONTHLY DECLINE. AVERAGE PROPENSITY TO SAVE FROM DISPOSABLE INCOME (JEI 363) HAS GRADUALLY UNCLASSIFIED

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DECLINE IN FIRST FOUR MONTHS OF THIS YEAR AND IS NOW 2.1 PERCENTAGE POINTS BELOW 24.4 PERCENT LEVEL OF JAN. IMPACT OF THIS TREND, AS WELL AS INCREASED OVERTIME EARNINGS, APPEARS TO HAVE CONTRIBUTED TO 3.5 PERCENT INCREASE IN REAL, PERSONAL CONSUMPTION IN FIRST QUARTER OF 1976. APRIL DECLINE IN AVEAGE PROPENSITY TO SAVE RAISES POSSIBILITY OF HEALTHY INCREASE IN PERSONAL CONSUMPTION IN SECOND QUARTER ALSO.

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /105 W

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R 070908Z JUL 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 0623

TREASURY DEPARTMENT WASHDC

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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AVERAGE PROPENSITY TO SAVE, S.A.

PERCENT OF DISPOSABLE INCOME

FEB	23.5
MAR	22.9
APR	22.3

8. BOND YIELDS CONTINUED TO RISE IN JUNE, BUT AT A SLOWER PACE THAN IN THE PRECEDING THREE MONTHS. GOJ BOND YIELDS REMAINED ALMOST UNCHANGED (UP ONLY 0.001 PERCENTAGE POINTS OVER MAY), AND STOOD AT 8.774 PERCENT PER ANNUM AT END OF JUNE. THE MONTHLY INCREASE IN YIELDS ON TELEPHONE AND TELEGRAPH BONDS WAS 0.08 PERCENTAGE POINTS IN JUNE, COMPARED TO MONTHLY AVERAGE OF 0.14 PERCENTAGE POINT RISE DURING MAR-MAY PERIOD. YIELDS ON CORPORATE BONDS ROSE BY 0.015 PERCENTAGE POINTS DURING JUNE, A MUCH SLOWER PACE THAN THE MONTHLY AVERAGE OF 0.06 PERCENTAGE POINT INCREASE REGISTERED IN

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## PRECEDING THREE MONTHS.

## BOND YIELDS, YIELDS TO MATURITY

(YIELDS IN PERCENT: AT MONTH-END)

TELEPHONE AND CORPORATE

	GOJ BONDS	TELEGRAPH BONDS	BONDS
APR	8.675	8.963	8.772
MAY	8.773	9.115	8.919
JUNE	8.774	9.198	8.934

OTHER INTEREST RATES RECORDED RELATIVELY SMALL CHANGES DURING FIRST SIX MONTHS OF THIS YEAR. SHORT-TERM BANK LENDING RATES CONTINUED TO DECLINE (BY A TOTAL OF 1.5 PERCENTAGE POINTS), AFTER PEAKING MARCH 1975, AND STOOD AT 8.06 PERCENT PER ANNUM AT END OF MAY THIS YEAR. (NOTE: THAT EXCLUDES COMPENSATING BALANCES AND OTHER CHARGES.) THE RATE OF DECLINE, HOWEVER, SLOWED DOWN RAPIDLY THIS YEAR (DOWN 0.3 PERCENTAGE POINTS DURING FIRST FIVE MONTHS, AS COMPARED TO 1.2 PERCENT-AGE-POINT DROP REGISTERED DURING LAST NINE MONTHS OF 1975). LONG-TERM BANK LENDING RATES, ON THE OTHER HAND, CONTINUED TO RISE THROUGHOUT ENTIRE 1975 AS WELL AS FIRST FIVE MONTHS OF THIS YEAR. RATE OF INCREASE ACCELERATED SHARPLY DURING FIRST QUARTER OF THIS YEAR (MONTHLY AVERAGE OF 0.01 PERCENTAGE POINTS), BUT THEN SLOWED DOWN DURING APR-MAY PERIOD (MONTHLY AVERAGE OF 0.006 PERCENTAGE POINTS). LONG-TERM BANK LENDING RATES STOOD AT 8.949 PERCENT PER ANNUM AT END OF MAY THIS YEAR. GOJ-REGULATED INTEREST RATES (OFFICIAL DISCOUNT RATE, LONG-TERMPRIME RATE, AND DEPOSIT RATES), ALL REMAINED UNCHANGED DURING FIRST SIX MONTHS OF THIS YEAR. CALL RATES WERE LOWERED BY A TOTAL OF 1.25 PERCENTAGE POINTS DURING FIRST SIX MONTHS OF THIS YEAR BUT RAISED SLIGHTLY AROUND MIDDLE OF JUNE TO 7.00 PERCENT PER ANNUM (UNCONDITIONAL.)

## CYCLICAL MOVEMENT OF INTEREST RATES

TIGHTER EASIER

CREDIT CREDIT CURRENT RISE DURING

AFTER AFTER DEC RATES JAN-JUNE

4/1973 3/1975 1975 7/1976 1976

DISCOUNT

RATE	5.00	9.00	6.50	6.50	0
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CALL

MONEY

RATE	5.875	12.50	8.00	7.00	1.0
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AVERAGE

CONTRACT

LENDING

RATE  
(SHORT-  
TERM) 6.396 9.562 8.375 8.060 MIN 0.315  
(MAY)  
LONG-TERM  
LENDING  
RATE 7.943 8.790 8.905 8.949 0.044  
(MAY)  
PRIME  
RATE  
(L-T) 7.7 9.9 9.2 9.2 0  
DEPOSIT  
RATE  
1 YEAR 5.75 7.75 6.75 6.75 0

9. JAPAN'S OFFICIAL RESERVES CONTINUED TO RISE IN JUNE, THOUGH LESS SHARPLY (\$187 MIL) THAN IN PRIOR MONTH (\$273 MIL, AND TOTALED \$15,397 MIL AT END OF JUNE. MOF OFFICIALS ATTRIBUTED THAT RESERVE INCREASE TO LARGE CURRENT ACCOUNT SURPLUS IN JUNE B/P. MERCHANDISE TRADE IS ESTIMATED TO HAVE REMAINED IN SUBSTANTIAL SURPLUS, WHICH IS MORE THAN ADEQUATE TO FINANCE CAPITAL OUTFLOWS RECORDED FOR BOTH LONG-TERM AND SHORT-TERM CAPITAL DURING THE MONTH. CAPITAL INFLOWS THROUGH NEW BOND ISSUES ABROAD BY JAPANESE ENTERPRISES ARE ESTIMATED TO HAVE DECLINED BY \$30 MIL FROM PRIOR MONTH TO \$140 MIL IN JUNE, WHILE INVESTMENT IN OUTSTANDING JAPANESE SECURITIES HAS SWUNG TO NET FOREIGN BUYING FROM NET SELLING. IN JUNE, THERE WERE LARGE OUTFLOWS OF ARBITRAGE FUNDS (AROUND \$400 MIL, DUE TO MATURITY OF TWO-MONTH TREASURY BILLS PURCHASED IN APRIL. THE YEN WEAKENED AGAINST DOL IN EARLY PART OF JUNE, BUT STRENGTHENED RAPIDLY TOWARD MONTH-END, AND BOJ OFFICIALS ADMITTED SOME INTERVENTION IN THE FOREX MARKET, JUST PRIOR TO THE SAN JUAN SUMMIT CONFERENCE, IN ITS  
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ATTEMPT TO PREVENT SHARP UPWARD MOVEMENT OF YEN AGAINST THEEDOL. BOJ OFFICIALS, HOWEVER, STRESSED SMALL SIZE OF BOJ DOL PURCHASE (REPORTEDLY \$30 MIL TO \$50 MIL ON JUNE 299.)  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DATA, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 JUL 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition Event:**  
**Disposition History:** n/a  
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**Enclosure:** n/a  
**Executive Order:** N/A  
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**Review Authority:** schwenja  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 27 FEB 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <09 AUG 2004 by schwenja>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JULY 1 - 7  
**TAGS:** EFIN, ECON, JA  
**To:** STATE TRSY  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006